Co-operators Life Insurance Company

2000 Annual Report

That's Life

the co-operators
A Better Place For You™

The milestones are endless. Your time to wade through insurance products is not. We recognize that your time is precious; that's why we offer a wide-range of products designed to meet your individual needs. Whether it's life insurance or savings products, we've got the tools to get you on your way. A meeting with us today can provide you with a variety of opportunities for the future, right from helping you realize your dream—and baby's too—to helping make your "place in the sun" more than just an idea.

Co-operators Life Insurance Company

- One of the top 15 life insurers in Canada
- Based in Regina, Saskatchewan
- Employs over 500 people
- Provides life insurance protection to 490,000 Canadians under individual and group contracts
- Provides and administers extended health, dental and disability group benefits to 260,000 employees
- Administers over $1.1 billion in funds to help Canadians reach their savings goals and meet their post-retirement needs

That's Life

Growth of our core insurance business continued throughout 2000, leading to a 6% increase in the number of Canadians for whom we provide life and health insurance protection. We wish to recognize the efforts of our distribution partners and staff in meeting the challenges of the year and look forward to their support in 2001.

Message from the Chairperson of the Board, President and Chief Executive Officer

As the second largest operation in The Co-operators group of companies, Co-operators Life works hard to make sure they provide first-class life and health insurance products. These products are provided to both individuals and groups who seek security for family income and hard-earned assets by purchasing quality life and health insurance products.

The Life Company also continued to help clients meet their savings and retirement goals by offering tax-effective universal life products, whole life insurance products, and pension and Registered Retirement Savings Plans.

Co-operators Life has surpassed expectations once again, achieving the second most successful year in their history. With The Co-operators Group having come through a difficult year, the one constant remains the consistently good performance of our Life operation.

We look forward to their new product plans for 2001 which include development of critical illness and guaranteed issue plans, enhancing the universal life product, expanding the use of the health care spending account and introducing a new vision care program. Significant investments in technology are also being made throughout the Company to facilitate the delivery of enhanced services at a reduced cost.

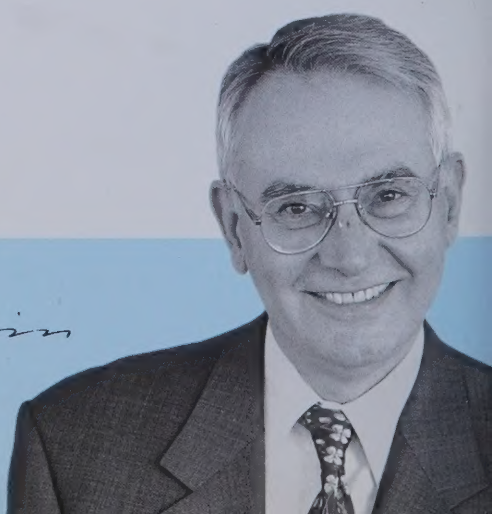
All these initiatives show that we are making significant progress with our multi-distribution channel strategy which is to be "**where Canadians are, with the products they want, when they want them, however they wish to buy them**." The Life Company is well positioned to thrive in this environment as they strive to best meet the total financial security needs of clients at every stage of their lives, while offering them distribution channels which effectively suit their preferences.

As the financial services industry continues to consolidate into fewer providers, The Co-operators brand will continue to represent a powerful competitive advantage in our domestic markets. Canadians know The Co-operators and appreciate that we have played a vital role in their communities throughout our history.

As a member of Imagine, The Co-operators is one of 450 Canadian companies that contribute at least 1% of pretax profit to charitable activities. Last year The Co-operators was a major participant in the Our Millennium Program, a grass-roots initiative directed by The Community Foundations of Canada.

Harvey Granatier
Chairperson of
the Board

G. Terry Squire
President and Chief
Executive Officer



Over 6,000 gifts were registered involving over 4.7 million Canadians. The Life Company's gift added a special safety training program for inner city children as part of their very successful WiseRider™ program.

We commend the management and staff at Co-operators Life for their efforts and commitment to the organization and we are confident that they are ready for the challenges of the coming years.

Message from the Chief Operating Officer

The year 2000 was a challenging one for Co-operators Life, yet I am pleased to report pretax income surpassed plan and exceeded $40 million for the third consecutive year. The Company continued to grow at an encouraging pace with a 10% increase in direct written insurance premium, including self-funded premium equivalents, and a 5% increase in assets under administration.

The positive results for the year were confirmation of the labours of our management, staff, investment and distribution partners. These efforts were recognized in 2000 by the award of an "A" (Excellent) financial strength rating by the A.M. Best Company, which has been rating insurers for more than 100 years.

Sales of individual insurance, asset accumulation and creditor products continued to be strong in 2000. Profits were enhanced through the recognition of increased life expectancies of Canadians.

The results for the group benefit line of business were disappointing. While steps were taken to address the loss, results continued to deteriorate through the year. Action is being taken to ensure a return to profitability for this line of business in 2001. I am also pleased to report that our hard work in providing exceptional disability claims management was recognized with the Award of Excellence in the private-sector service provider category at the National Awards of Excellence in Disability Management.

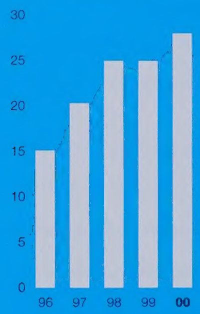
The very high quality of our investments, the strength of The Co-operators agency system and the success of the CUIS joint venture also contributed significantly to our successful year.

I would like to thank the management and staff of Co-operators Life for their efforts in making this year another success story and I feel very confident in handing over the reins to my successor, Dan Thornton.

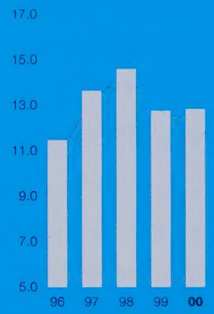
Ken Berglund
Chief Operating Officer

Record level of after-tax income

Net Operating Income
(millions of dollars)



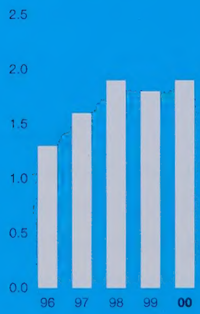
Return on Equity
(percent)



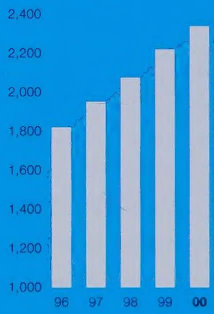
Higher than the majority of our industry peers

Growth of earnings consistent with growth in asset base

Return on Assets
(percent)



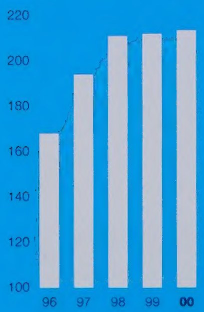
Assets Administered
(millions of dollars)



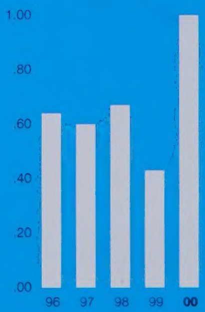
Quantity and quality increasing

Well in excess of the OSFI target ratio of 150%

Capital Adequacy
(percent)



Non-Insured Mortgage Arrears
(as a percent of total mortgages)



Up from recent unusually low levels but in line with industry average

The information in this discussion should be read in conjunction with the Company's financial statements and notes thereto.

Overview

The principal business of the Company is to provide life insurance, health insurance and asset accumulation products to individuals and employee and association groups. The Company achieves diversification of risk by being active in multiple lines of business, employing multi-channel distribution methods and actively selling in all regions of Canada. The company provides life insurance protection to over 490,000 Canadians, provides and administers extended health, dental and disability group benefits to 260,000 employees and administers over $1.1 billion of asset accumulation funds designed to help Canadians achieve their financial goals.

From 1999 to 2000, the Company's premium revenue, net of reinsurance, increased 6% to $453 million. During the same period, the Company's assets under administration grew 5% to $2.3 billion. Investment revenue for 2000 increased 12% to $105 million. Fee income of $4 million, which consists primarily of management fees for segregated funds, was up 13% from 1999. Payments and provisions for policyholder benefits increased 9%. Marketing and other operating expenses, including reinsurance expense allowances, increased 13% from 1999.

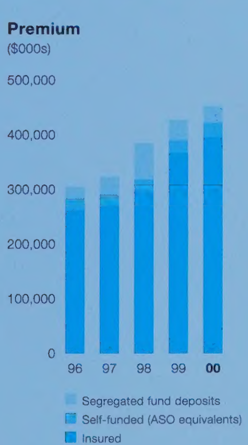
Net operating income for 2000 for Co-operators Life was $28 million; $27 million of net income was credited to the participating policyholder account and $1 million was credited to shareholders' equity.

Sources of Premium Revenue

The breakdown of the Company's premium revenue by category, line of business and geographic area for 1996 to 2000 is reflected in the following tables. Premium revenue includes deposits to the company's pooled segregated funds, Administrative Services Only (ASO) premium equivalents and premium assumed from other federally licensed insurers, less reinsurance premium ceded.

Premium Revenue

thousands	**2000**	1999	1998	1997	1996
Insured	**$ 395,666**	$ 367,337	$ 298,002	$ 270,496	$ 261,595
Self-funded (ASO equivalents)	**26,392**	22,857	20,192	20,146	21,550
Segregated fund deposits	**31,369**	37,819	67,054	32,848	22,382
Total	**$ 453,427**	$ 428,013	$ 385,248	$ 323,490	$ 305,527

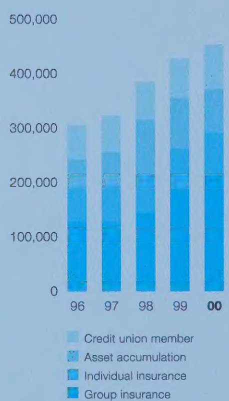


Individual insurance, consisting of permanent, term, universal life and accidental death only policies, represented 17% of premium revenue in 2000. Group insurance, which includes life as well as a complete range of disability and health products, represented 47% of premium revenue. Deposits to the asset accumulation products, including individual annuities, group RSP and pension products, accounted for 18% of 2000 premium revenue. In 2000, 18% of premium revenue was assumed under a 50% coinsurance agreement the company has with another federally licensed insurer to provide insurance to credit union members.

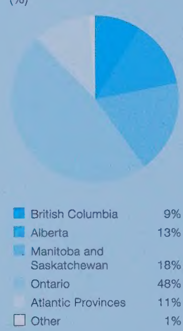
Line of Business

thousands	2000		1999		1998		1997		1996	
Group insurance	**$ 212,193**	**47%**	$ 187,763	44%	$ 144,233	38%	$ 126,983	39%	$ 127,421	41%
Individual insurance	**79,341**	**17**	74,600	17	70,808	18	66,813	21	63,303	21
Asset accumulation	**79,719**	**18**	93,018	22	100,537	26	61,810	19	51,742	17
Credit union member	**82,174**	**18**	72,632	17	69,670	18	67,884	21	63,061	21
Total	**$ 453,427**	**100%**	$ 428,013	100%	$ 385,248	100%	$ 323,490	100%	$ 305,527	100%

Premium by Line of Business
($000s)



Geographic Area
(%)



Geographic Area

thousands	2000		1999		1998		1997		1996	
British Columbia	**$ 42,954**	**9%**	$ 45,478	11%	$ 31,059	8%	$ 30,804	9%	$ 27,382	9%
Alberta	**56,889**	**13**	58,523	14	56,262	15	39,640	12	35,789	12
Manitoba and Saskatchewan	**83,825**	**18**	77,966	18	74,243	19	69,980	22	69,873	23
Ontario	**212,479**	**48**	184,431	43	171,930	45	141,624	44	129,896	43
Atlantic Provinces	**50,725**	**11**	55,497	13	46,100	12	37,204	12	37,852	12
Other	**6,555**	**1**	6,118	1	5,654	1	4,238	1	4,735	1
Total	**$ 453,427**	**100%**	$ 428,013	100%	$ 385,248	100%	$ 323,490	100%	$ 305,527	100%

Premium revenue increased 6% in 2000. The 1999 premium was inflated by single premiums of $21 million. Excluding these unusual items, 2000 premium revenue increased 11%, due to a combination of new sales of individual and group insurance and rate increases on existing group insurance business. Continued strong sales within the credit union member coinsurance program also added positively to our premium growth.

Selected Financial Information

thousands	2000	1999	1998	1997	1996
Premium income*	**$ 453,427**	$ 428,013	$ 385,248	$ 323,490	$ 305,527
Investment income	**105,034**	93,940	97,734	94,461	86,314
Fees and other income*	**4,177**	3,694	2,787	2,357	1,433
Policyholder benefits*	**356,754**	326,252	272,578	254,827	259,453
Controllable expense	**123,914**	109,483	98,245	90,646	80,426
Net income before taxes	**42,922**	45,362	42,053	35,504	25,800
After tax income attributable to:					
Participating policyholders	**26,655**	22,724	14,205	13,600	7,188
Shareholders	**1,308**	2,116	10,748	6,704	7,912
Total	**$ 27,963**	$ 24,840	$ 24,953	$ 20,304	$ 15,100

* differs from audited statements due to deposits to pooled segregated funds and recognition of ASO business

Net income before tax for 2000 decreased from $45.4 million to $42.9 million, a 5% reduction over 1999. The major reason for the decrease was unfavourable morbidity and mortality experience on group insurance products. Pretax income was positively impacted by net positive changes in assumptions used in establishing actuarial liabilities for individual insurance, and reduced reserve requirements in support of asset accumulation products. The recognition of declining future income tax rates and the preferential treatment of certain invested assets produced a record level of after-tax earnings for 2000.

Investment income increased by 12% in 2000 over 1999 due to the higher than expected level of invested assets, strong returns on equity investments, and a decrease in the provision for asset defaults.

Fees and other income primarily includes the revenue resulting from the management of segregated funds. The growth in segregated funds under management has been significant over the past few years, leading to a 13% growth in fees and other income from 1999 to 2000 and 191% growth since 1996.

Policyholder Benefit Expense

thousands	2000	1999	1998	1997	1996
Increase in actuarial liabilities	**$ 23,826**	$ 64,051	$ 13,707	$ 10,445	$ 37,956
Policyholder payments*	**332,925**	262,201	258,871	244,382	221,497
Total	**$ 356,751**	$ 326,252	$ 272,578	$ 254,827	$ 259,453

* differs from audited statements due to recognition of ASO business

Policyholder benefit expense, which can be separated into increases in actuarial liabilities and policyholder payments, was higher than expected in 2000. Actuarial liabilities required to support the long-term disability in force claims increased significantly due to growth in the number of claimants. In addition, claim payments exceeded plan for both group life and group health products. Surrenders of asset accumulation products, including transfers to segregated funds, led to a reduction in actuarial liabilities for this product line. Changes in valuation assumptions and reinsurance arrangements for individual insurance products led to lower than expected increases in actuarial liabilities required to meet the future obligations of the individual insurance lines of business.

Controllable Expense

thousands	2000	1999	1998	1997	1996
Marketing	**$ 37,193**	$ 33,103	$ 27,586	$ 26,690	$ 22,693
Salaries & benefits	**25,055**	22,634	19,774	17,113	15,484
Operating expenses	**24,514**	20,133	19,864	18,433	15,043
Reinsurance expense allowances	**37,152**	33,613	31,021	28,410	27,206
Total	**$ 123,914**	$ 109,483	$ 98,245	$ 90,646	$ 80,426

Efforts to limit the growth of operating expenses have been successful again in 2000, in spite of the increased risk appraisal costs to support preferred underwriting and overall infrastructure enhancement initiatives. Marketing expense increases have resulted mainly from group insurance premium growth. Salaries and benefits expense has risen as staff are hired and trained to handle both the increased volume of business and increasingly sophisticated individual life products. The reinsurance expense allowance category of controllable expense represents the company's 50% share of controllable expense incurred under the coinsurance agreement to provide insurance to credit union members. Deducted from the assumed reinsurance expense allowance is 50% of the controllable expense the company incurs in providing group insurance benefits to credit union employees. Growth in the credit union member insurance line of business has led to higher expenses. The Company's joint venture partner has also made significant investments in technology over recent years, which are anticipated to have a positive impact on future expense levels.

Individual Insurance Operations

The Company offers a complete portfolio of individual life insurance products including permanent, term and universal life. Our popular term life product, Versatile Term™, offers seven rate classes with premium rates that reflect an individual's health and lifestyle. Gross new annual premium for UniversaLife II exceeded expectation, increasing by 7% over prior year. This product offers flexible life insurance protection options plus client selected investment choices which allow for tax-sheltered savings growth. We also partnered with a related company, HB Group Insurance Management Ltd., to provide stand-alone accidental death insurance policies to their customers on a direct-response basis.

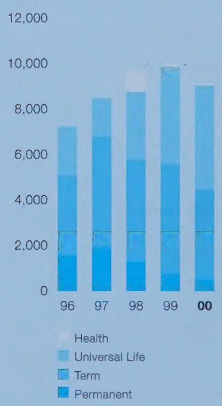
The individual insurance division's objectives are to:

- achieve steady growth in the individual life insurance market
- earn an appropriate rate of return while balancing competitive pressures
- reduce unit costs through a combination of decreasing controllable expenses and growth of the business in force

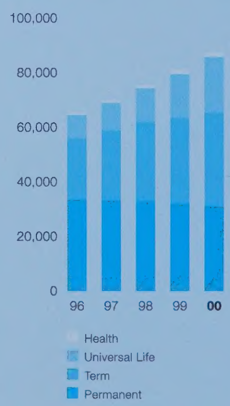
During 2000, the individual insurance division performed well against its objectives as follows:

- 1.7% increase in the number of policies in force
- $25 million net income, pretax
- marginal policy maintenance cost increase despite significant system initiatives

Individual Insurance New Sales Premium
($000s)



Individual Insurance Direct Premium Income
($000s)



Individual life insurance direct premium revenue for 2000 was $86 million, an 8% increase over the prior year. Mortality results and customer retention were in line with plan. Direct premium revenue of the universal life product line increased 27% over the prior year. Direct term premium revenue increased 9% while direct permanent insurance premium revenue decreased 3%.

Significant progress was made in 2000 in the development of a new policy administration system that is scheduled for implementation in 2001. This project includes enhanced mechanisms for information sharing with our distribution partners, numerous process improvements for policy underwriting, issue, and client service, and sets the stage for Internet/intranet client communication.

Individual insurance products are distributed primarily through The Co-operators Canada-wide network of multi-line agents. Development of the complementary Direct Response distribution system has been a success. The 2000 offer to provide accidental death insurance to existing clients of HB Group Insurance Management Ltd. was well received.

Group Insurance Operations

The Company offers a complete range of group insurance products including: life, accidental death, disease and dismemberment, short- and long-term disability insurance; as well as health and drug coverage not provided by provincial medical plans; dental care; vision care; health spending accounts and early intervention programs.

Group insurance products and services are provided to employee groups and associations under fully insured, Administrative Services Only (ASO) and a combination of insured and ASO contracts. Policies are renewable and are subject to regular pricing adjustments.

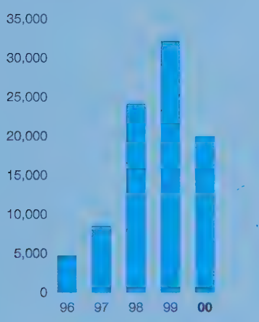
The objectives of group insurance operations are to:

- price products to provide fair value to the customer and acceptable returns to the Company
- reduce the ratio of controllable expense to premium revenue
- increase market share by direct sales efforts and forming strategic alliances

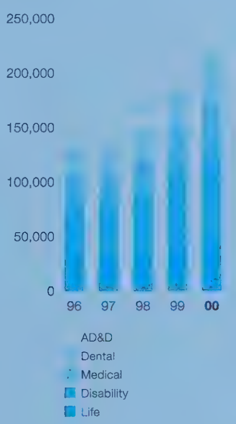
During 2000, group insurance operations experienced:

- new sales of group insurance products at the $20 million target level
- 18% increase in direct premium and premium equivalents administered under ASO agreements
- maintenance of the expense as a percentage of premium ratio, despite significantly increased selling expenses

Employee Benefit New Sales Premium
($000s)



Employee Benefit Premium & Equivalents
($000s)



Recovery from the strain created by rapid growth in 1998 and 1999 has been more difficult and is taking longer than expected. Claims experience in 2000 failed to meet expectations. Product pricing has been reviewed and rate increases introduced where appropriate. Alternative plan designs are also being explored with plan sponsors. Growth will continue to be closely managed until a return to profitability is achieved. Group insurance net premium revenue for 2000 was $212 million, a 13% increase over 1999, with a significant portion of the increase coming from increases in the rate bases.

Achievements in 2000:

- The planned reduction in new sales of group insurance products allowed staff to achieve service standards in most areas.
- Customer retention, as measured by a leading industry survey, continues to be above industry average.
- The Health Spending Account, which was introduced on a pilot basis in early 2000, has been well received.
- A conversion plan was made available to group health and dental clients. Through a special arrangement between Co-operators Life and Green Shield Canada, individuals who lose their group benefits can now apply for a choice of health and dental programs with Green Shield Canada.
- The National Institute of Disability Management and Research presented the company with an Award of Excellence in Disability Management in the category of private-sector service provider of disability management and return to work programs.

Asset Accumulation

The Company offers individuals and groups a wide range of long-term savings and investment products designed to accommodate pension, tax planning and deferred compensation requirements. General fund premium (which includes both considerations for payout annuity products and purchase of guaranteed interest investment products) surpassed $48 million in 2000. General fund premium in 1999 included $13 million of single premium to the group annuity product line.

Individual annuity plans are offered on both an immediate (payout) and a deferred basis with segregated fund investment options available to the deferred annuity policyowners. Nine segregated investment options, all managed by Co-operators Investment Counselling Limited, are available to customers under the individual annuity contracts. The three new investment options offered to Versatile Asset® and Versatile Asset® II policyholders in 2000 were Conservative Balanced, Aggressive Balanced and U.S. Growth.

Most of the Company's group annuity contracts are sold to corporate pension plans registered under the *Income Tax Act (Canada)*. Funds are placed, at the purchaser's option, in either the general funds of the company under which the principal and interest rates are guaranteed, or in one or more of the ten pooled segregated investment options. Retirement savings plans are also sold to employee groups, providing access to tax-effective retirement savings in a cost-effective manner. There were four new investment options introduced to our group annuity clients in 2000: Conservative Balanced, Aggressive Balanced, U.S. Growth and Canadian Resource.

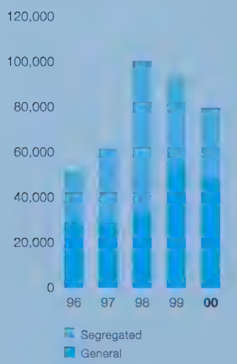
The asset accumulation division's objectives are to:

- increase the funds administered to provide retirement/investment benefits to Canadians
- reduce controllable expense as a percentage of funds held
- earn an appropriate rate of return while balancing competitive pressures

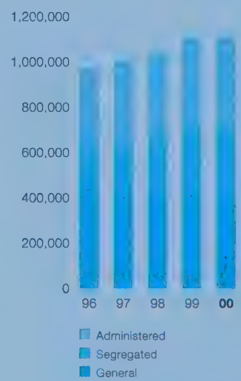
During 2000, the asset accumulation line of business performed well against its objectives as follows:

- 15% growth in general fund premium revenue (excluding single premium received under a special program in 1999)
- $7.5 million net income, pretax
- frequency of reporting to policyholders was increased to quarterly for individual products and semi-annually for group products as part of our standard service package

Asset Accumulation Deposits
($000s)

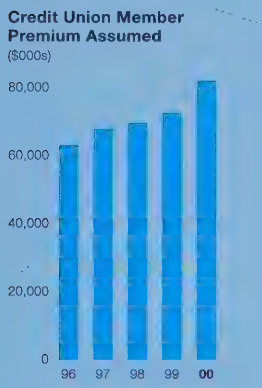


Asset Accumulation Funds Administered
($000s)



Credit Union Member

The Company participates in a joint venture—Credit Union Insurance Services (CUIS)—with CUMIS Life Insurance Company, another federally licensed insurance company. Under the CUIS marketing program, members of the Canadian co-operative financial system are provided life, disability and loss of employment insurance products. Members purchase these products to reduce or eliminate outstanding balances on personal loans, residential mortgages, business and agricultural loans and personal lines of credit in the event of loss of life or livelihood.



The market for the CUIS program consists of the nearly 4.5 million members of Canadian financial co-operatives, including credit unions, caisses populaires, provincial credit union centrals and francophone federations, the Credit Union Central of Canada and Co-operative Trust Company of Canada.

Co-operators Life and CUMIS Life share the financial results and costs of the CUIS program on a coinsurance basis. Premium and policy benefit expenses are reflected on the appropriate lines of the statement of operations. Controllable expenses are shown in total on the reinsurance allowances line of the statement of operations.

Credit union member premium assumed increased by 13% to $82 million in 2000 as a result of significant growth in creditor insurance and represented 18% of total premium revenue for the company. Pretax profits from this line of business increased 11% over 1999 as morbidity and mortality experience continues its positive trend.

Investment Operations

The North American economy continued its vigorous growth in 2000, with real GDP growth approaching 5% in both the United States and Canada. Propelled by growing government surpluses along with accelerating growth in domestic productivity, employment and consumption, Canada outperformed most other economies during the year. Core inflation as measured by the Consumer Price Index remained remarkably stable in the face of this strong growth. While the U.S. stock market struggled for most of the year from a combination of higher interest rates and excessive investor expectations, Canadian stocks fared relatively well, being one of the few markets showing a gain for the year. Bonds also performed well, as yields posted a substantial decline in 2000.

Co-operators Life enjoyed excellent investment performance during the year. The Canadian equity portfolio strongly outperformed the market, and this was one of the factors that helped the company's net investment income increase to $105 million in 2000 compared to $94 million in 1999.

The invested assets in the Company's general account grew by $66 million to $1.36 billion in 2000. As in the previous year, strong growth in general account assets was somewhat offset by slower growth in segregated funds. During 2000, segregated fund assets grew by $26 million to $423 million, compared to an increase of $35 million in 1999.

The Company's investment portfolio is managed by Co-operators Investment Counselling Limited, an affiliated company. It has been in business since 1985 and currently has over $6.7 billion in assets under management.

The Company's investment objective is to manage its assets prudently, providing steady income flows to support the cash flow and liquidity needs of its insurance and investment products. Investment strategy is reviewed on an on-going basis and assets are actively managed to match and reflect the characteristics of the underlying policy liabilities. The Company has established comprehensive policies which set asset mix, specify investment authorities, control credit quality, restrict foreign currency exposure, regulate portfolio diversification and concentration, limit derivatives risk and establish asset/liability matching requirements by line of business. The Board of Directors has approved these policies, and is responsible for approving material changes to the policies annually. In 2000, the investments of the Company were fully compliant with legal and policy limits.

Asset Distribution

The investment portfolio is well diversified by asset category, industry sector, regional location and borrower.

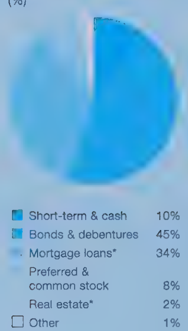
The annual changes in the term of investments and in the major categories of assets reflect changes in the Company's liability profile. The proportion of assets held in short-term investments increased in 2000 largely because of the net bond sales late in the year for the purpose of rebalancing asset/liability cash flows. As a result the proportion of funds invested in bonds fell correspondingly.

Invested Assets

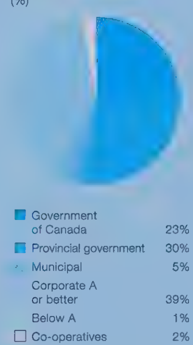
thousands		**2000**			1999
Short-term & cash	**$**	**141,723**	**10%**	$ 109,147	8%
Bonds & debentures		**599,648**	**45**	596,560	46
Mortgage loans*		**463,404**	**34**	446,783	34
Preferred & common stock		**114,895**	**8**	99,131	8
Real estate*		**30,469**	**2**	32,655	3
Other		**14,844**	**1**	14,271	1
Total	**$**	**1,364,983**	**100%**	$ 1,298,547	100%

* before encumbrances and general provisions for impairment

2000 Invested Assets
(%)



2000 Bonds
(%)



Asset Quality

Maintenance of a high quality investment portfolio reduces the Company's exposure to loss in recessionary periods and provides for consistent long-term results. Investment policy requirements for high quality investments are stringent.

Short-term investment holdings are limited to those rated R-1 by the Dominion Bond Rating Service.

The quality of bond holdings is high, with 91% of the portfolio rated as A or higher by the Dominion Bond Rating Service at year-end. Less than 1% of the portfolio was assessed as below "investment-grade" in 2000. The portfolio is well diversified, without undue exposure to single issuers or to industry groups or sectors.

Bonds

thousands		**2000**			1999
Government of Canada	**$**	**136,377**	**23%**	$ 137,541	23%
Provincial government		**177,220**	**30**	164,513	28
Municipal		**32,455**	**5**	44,043	7
Corporate A or better		**234,408**	**39**	230,265	39
Below A		**8,217**	**1**	9,192	1
Co-operatives		**10,971**	**2**	11,006	2
Total	**$**	**599,648**	**100%**	$ 596,560	100%

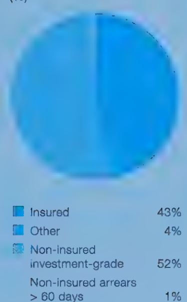
The mortgage portfolio is diversified by location, property type and industrial class, with residential loans making up 55% of total mortgages. Government insured loans represent 43% of the total mortgage portfolio. The mortgage portfolio is rated using a comprehensive internal risk-rating system. Non-insured mortgages rated M2-high and better are considered "investment-grade." During the year, mortgages in arrears increased from the very low levels of 1999 to 1% of total mortgage holdings.

Mortgages

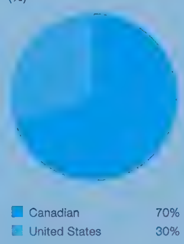
thousands		2000			1999	
Insured	$	**199,063**	**43%**	$	193,656	43%
Conventional						
M1 – high		**29,596**	**6**		26,725	6
– mid		**96,934**	**21**		100,158	22
– low		**116,022**	**25**		105,140	24
M2 – high		**11,796**	**3**		12,071	3
– mid		**1,459**	**—**		1,559	—
– low		**—**	**—**		—	—
Restructures		**3,207**	**1**		3,308	1
Arrears > 60 days		**4,639**	**1**		1,921	0
Unrated		**688**	**—**		2,245	1
Total	$	**463,404**	**100%**	$	446,783	100%

(before provisions for impairment)

2000 Mortgages
(%)



2000 Common Shares
(%)



The Company's common stock holdings are essentially composed of shares of large, well-capitalized Canadian and U.S. companies.

Common Shares

thousands		2000			1999	
Canadian	$	**56,055**	**70%**	$	40,854	67%
U.S.		**23,721**	**30**		20,447	33
Total	$	**79,776**	**100%**	$	61,301	100%

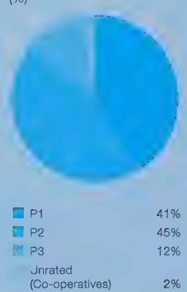
Preferred share holdings were invested primarily in shares of large Canadian public utility companies and the major chartered banks. The portfolio was rated by the Dominion Bond Rating Service as follows:

Preferred Shares

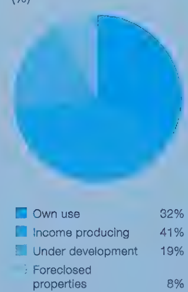
thousands		2000			1999
DBRS rating					
P1	$	**14,467**	**41%**	$ 16,528	43%
P2		**15,840**	**45**	18,488	49
P3		**4,136**	**12**	2,139	6
Unrated (Co-operatives)		**676**	**2**	675	2
Total	$	**35,119**	**100%**	$ 37,830	100%

The Company's real estate investments are summarized below:

Preferred Shares
(%)



2000 Real Estate
(%)



Real Estate

thousands		2000			1999
Own use	$	**9,753**	**32%**	$ 10,000	31%
Income producing		**12,714**	**41**	13,571	41
Under development		**5,702**	**19**	6,784	21
Foreclosed properties		**2,300**	**8**	2,300	7
Total	$	**30,469**	**100%**	$ 32,655	100%

(before encumbrances and general provisions for impairment)

Provision for Asset Defaults

Losses arising from disposal of a foreclosed property, write-downs, and provisions under Section 3025 of the Canadian Institute of Chartered Accountants (CICA) Handbook for restructured loans totalled $0.4 million during the year. This was offset by mortgage provision releases of $0.8 million. As a result, the general provision for future mortgage loan losses now totals $4.7 million. During 2000, there was also a release of $1 million in real estate provisions in recognition of the decline in the Company's real estate holdings over the past five years. These provisions for real estate losses now total $4.5 million.

The most significant investment risk to which the Company is exposed is the risk of loss due to declines in credit quality leading to defaults in the payment of principal or interest on mortgages and loans. Consequently, the Company reviews its investment portfolio monthly in a published Watch List to identify investments where values may be impaired. Every quarter, the Watch List is scrutinized by the Investment Forum (a committee comprised of the Chief Executive Officer and Chief Financial Officer of The Co-operators, the Chief Operating Officer of Co-operators Life and senior investment and finance managers) in order that senior management is apprised of any risk of loss from invested assets. The Watch List is also reviewed quarterly by both the Audit and Investment Policy Committees of the Board.

Looking Ahead

Signs of slowing growth in the U.S. economy were becoming abundant by the end of the year. The cumulative effects of past rate increases by the Federal Reserve, escalating energy costs and deflating stock prices have started to take their toll. Economic data releases indicate a decline in manufacturing output, slower sales and a fall in consumer confidence. Whether or not the coming months will produce just a slowdown in the U.S. or an outright recession remains to be seen. While it is unlikely that Canada will escape a slowdown if the U.S. economy stalls, the domestic economy is cyclically behind that of the U.S. and momentum is stronger. The Federal Reserve will likely cut rates aggressively early in the year and we expect that the Bank of Canada will initially lag behind these rate cuts. Unless a global hard landing takes place, the North American economy should start to recover and grow at a faster pace in the second half of the year. Interest rate and tax cuts will have the effect of shoring up domestic demand. Under this scenario we anticipate the yield curve to steepen and bond yields to move to lower trading ranges. We expect positive returns from both stocks and fixed income investments for the year as a whole.

Capital Resources

Capital Resources

The financial strength of the Company continues to improve as 2000 marked the third consecutive year pretax income exceeded $40 million for Co-operators Life. The total equity of the company has increased by 67%, from $139 million at December 31, 1996 to $232 million at December 31, 2000.

The following table shows the breakdown of the company's equity for the last five years.

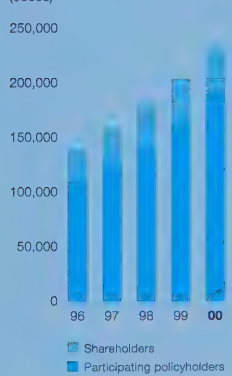
Equity

thousands	**2000**	1999	1998	1997	1996
Participating policyholders	**$ 190,133**	$ 162,276	$ 138,416	$ 124,463	$ 110,271
Shareholders	**41,468**	41,932	41,467	34,290	28,695
Total	**$ 231,601**	$ 204,208	$ 179,883	$ 158,753	$ 138,966

The measurement of the financial strength of a life insurer is very complex due to the varying nature of products and risk factors between companies. The Office of the Superintendent of Financial Institutions Canada utilizes the Minimum Continuing Capital & Surplus Requirements (MCCSR) formula to measure the risks the company has assumed relative to the capital it has in place to support those risks. The Company's ratio has been steadily increasing since 1993 to its current level of 214% of required capital. The Company closely manages its capital position to ensure a level that is well above the Superintendent's target ratio of 150%.

Co-operators Life was awarded an "A" (Excellent) financial strength rating in 2000 by A.M. Best, the independent insurance rating agency.

Equity
($000s)



Risk Management

The Company has established comprehensive risk management policies covering all aspects of operations. The Board of Directors has approved these policies, and is responsible for approving material changes to the policies annually.

The risk management policies of the Company are interrelated and management of any risk cannot be considered in isolation without regard to other policies drafted to manage other business risks. In particular, management of the Company's capital is conducted in conjunction with the capital management, credit risk, foreign exchange and liquidity risk management policies.

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates and occurs when a company's asset cash flows do not coincide with the cash flows arising from the liabilities. Many of the Company's liabilities consist of contractual or otherwise predictable payments to policyholders. The liabilities of the Company are segmented based on the nature of the products and the relative exposure to interest rate risk. The assets of the Company are similarly divided, with all investments allocated to an appropriate segment. For each major product segment, liabilities with predictable cash flows will be matched by assets with predictable cash flows, within the constraints established as applicable to that segment. Each segment has a matching policy, requiring the level of mismatch to be kept within prescribed limits. This matching policy is a critical part of the Company's investment policy. The matching of assets to liabilities is monitored regularly. In the applicable segments this is done through the use of duration matching, cash flow matching and interest rate sensitivity analysis. The limits on mismatch are established by investment policies approved by the Board of Directors of the company.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a debtor to honour its obligations to the company. Investment policies aimed at maintaining a fixed income portfolio of high overall quality have been established by the Company. These include standards relating to quality for each category of assets and setting limits on the concentration of credit risk by borrower and geographic region. Various limits have also been set on percentages of bonds, mortgages and other loans that can be held by type of property or by industry group. The Company also has an overall corporate concentration limit on its exposure to any single group of related corporate entities, requiring that this be less than 25% of company surplus.

Foreign Exchange Risk

Foreign exchange risk is the risk of loss due to unfavourable movements in foreign exchange rates relative to the Canadian dollar. It arises from currency mismatches between assets and liabilities. The Company carries on business only in Canada and is not a multinational company. Consequently, any foreign exchange exposures will be for sound business reasons and with due regard to other risks (e.g., liquidity, credit risk, interest rate risk and investment risk) and the Company's ability to absorb potential losses. Foreign exchange risk is not permitted in the matching of assets and liabilities. Foreign currency investments in the operating segments are permitted only as an offset to corresponding foreign currency liabilities. However, the Company's surplus account is permitted to hold foreign currency assets. This normally involves holding a portion of the equity investments in foreign common stocks for diversification purposes, to lessen risk and enhance return by having exposure to industries, companies and technology not available in the Canadian stock market. This exposure is limited to a maximum of 50% of surplus assets by book value.

Derivatives Management Risk

Derivatives are financial contracts whose values are derived from the value of an underlying asset or index such as interest rates, exchange rates, equities and insurance contracts. Currently the Company does not have any derivative investments. The Board of Directors has approved a comprehensive derivatives policy that permits the Company to be a limited end-user of derivative instruments. The derivatives policy specifically prohibits derivative use for speculative purposes. The primary use of derivatives will be to hedge market risk in the investment portfolios. Derivatives will not be used to create any exposures not otherwise allowed in investment policy. They are strictly governed by detailed limits involving independent review, credit risk limits and operational controls.

Liquidity Risk

Liquidity risk refers to the ability of the Company to raise funds to meet financial commitments as they fall due. Liquidity risk will vary by line of business based on contractual rights to make cash withdrawals and other distinct product features. It is unlikely that all demand liabilities will be withdrawn at the same time.

The desired liquidity level of the Company is determined by taking into account the balance between the cost of liquidity on one hand and competitiveness in terms of price and corporate solidity on the other hand. The Company's asset liability management and cash management processes are prudently managed to ensure that cash inflows have an appropriate relationship to the size of approaching cash outflows.

The Company maintains a high level of liquid assets to ensure that cash demands can be readily met. The liquid assets of the Company have generally exceeded the liquidity needs of the liabilities by a wide margin. If additional liquidity is required, it is also available through unused bank lines of credit.

The primary methodology for managing liquidity on a strategic basis is the calculation of liquidity ratios over different time horizons and under several scenarios. This analysis is used to identify both the overall level of risk and the types of events that increase liquidity risk.

Liquidity risk is measured and monitored at least quarterly. The liquidity ratios that are produced as a result of the forecasts are summarized and analyzed for each time horizon and scenario. Compliance with the liquidity risk policy is reported quarterly to senior management and at least annually to the Board of Directors of the company.

Underwriting

The Co-operators life and health underwriting objectives are premised on the underlying notion that all proposed insureds will be underwritten equitably and fairly and in accordance with the terms of the product(s) applied for. The goals are to:

- ensure that underwriting activity is consistent for all clients
- provide competitive and fair prices by maintaining correct risk classification
- price according to the risks represented by the client
- maintain a presence for the long term in our markets

For individual insurance, comprehensive and detailed risk selection information is collected. The information required addresses all factors impacting each proposed insured's mortality or morbidity including: age, sex, amount applied for, smoker status, family history, medical history, current health, occupation, aviation, avocation, driving record, travel, foreign residence, citizenship, finances and lifestyle.

The underwriting guidelines clearly set out the risk selection information required for each mortality factor or combination of factors. The detailed information provided by the proposed insured may be supplemented with information from third parties including: the proposed insured's personal physician, clinics, hospitals, sanitariums, laboratories, current information from a paramedical or medical examination, motor vehicle reports, as well as personal, financial and lifestyle information from inspection report services.

Underwriting of all group products is related to the pricing and design of the product. Comprehensive underwriting manuals are maintained which detail the practices and procedures to be followed in the determination of the product design and price for each group to be insured. The decision to accept the risk is determined before quoting the product and is based upon an initial assessment of the group's characteristics. Careful risk screening is critical to avoid the possibility of allowing the company to be selected against in a competitive market. The group underwriting manual maintains a listing (updated regularly) of insurable groups, classified into a number of risk categories. High-risk groups are separately identified and must meet certain criteria before a quote can be offered.

Claims

The Co-operators life and health claims management objective is to adjudicate claims fairly, in accordance with the specific contractual terms, impartially and professionally on a timely basis.

In order to ensure complete and consistent claims adjudication, comprehensive manuals have been compiled which set out the types of evidence required to process a claim, the forms that must be completed or collected and the procedures that must be followed before a claim can be paid. Claims adjudication is not complete until all requirements set out in the Claims Procedures Manuals have been met. These manuals are revised when necessary to accommodate new product introductions and claims procedure enhancements.

Reinsurance

Reinsurance for individual life is utilized to ensure diversification is accomplished. The Company has a "per life" retention limit, over which any insurance is ceded to a particular reinsurer. For the purposes of automatic reinsurance, the Company utilizes several reinsurers. The Company deals only with the largest reinsurers which have a rating of A+ or better from an acknowledged rating agency such as A.M. Best, Standard & Poor's, Moody's or Duff & Phelps. The reinsurer used is dependent upon the product.

For group coverage, the Company has several reinsurance programs in place to allow it to share the underwriting risks. Different reinsurance levels apply to each type of coverage available and the reinsurance levels are reassessed periodically to ensure they remain economically feasible. The reinsurer automatically accepts business underwritten by the company, provided the reinsurance falls within the limits set out in the applicable reinsurance treaty, and the policy is written in accordance with the product and underwriting guidelines adopted and approved by the Company and the reinsurer. Coverages that deviate from standard underwriting guidelines are assessed on an individual basis.

Actuarial Liabilities

In the computation of actuarial liabilities, "best estimate" assumptions covering the lifetime of the policies have been made for many variables including mortality, morbidity, investment returns, rates of policy termination, operating expenses, inflation, policyholder dividends and taxes. Assumptions are reviewed annually based on studies of the major experience factors. The change in actuarial liabilities resulting from assumption revisions is recognized immediately in income.

To recognize the uncertainty in establishing the best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that actuarial liabilities are adequate to pay future benefits, a margin is included in each assumption. The Canadian Institute of Actuaries prescribes a range of allowable margins and, in most cases, the Company maintains margins at the conservative end of the allowable range.

Note 7 of the financial statements provides a more detailed explanation of the actuarial liabilities and a complete description of the nature of the liabilities, the most recent assumption changes and their impact on earnings.

Outlook

Co-operators Life, as a whole, has enjoyed consistently profitable operations and been very successful in gaining market share while simultaneously maintaining a strong capital position. The profitability of the group insurance operations has suffered; however, steps are being taken to ensure the adequacy of the premium rates charged for the benefits provided. Premium rate adequacy reviews in combination with careful management of new sales and controllable expenses are expected to return the group insurance line of business to profitability in 2001. Strong profits are expected to continue in 2001 from the individual life and credit union member lines of business as the positive momentum established in recent years continues.

New product plans for 2001 include development of critical illness and guaranteed issue plans, enhancing the universal life product, expanding the use of the health care spending account and introducing a new vision care program. Significant investments in technology are also being made throughout the Company to facilitate the delivery of enhanced services at reduced cost.

Earnings in 2001 are expected to surpass the 2000 level as the group employee benefit product profitability recovers. New sales and rate actions taken on existing group business will lead to increased premium revenue. Policyholder benefit expense will rise in conjunction with the increased insurance in force. Operating expense will increase primarily due to investments in information technology.

Readers of this section, Management's Discussion and Analysis, should review the entire annual report for additional commentary and information.

Management

Management is responsible for the preparation of the accompanying financial statements and the accuracy, integrity and objectivity of the information contained in the financial statements. These statements have been prepared in accordance with generally accepted accounting principles and policies prescribed or permitted by the Office of the Superintendent of Financial Institutions Canada. The financial statements necessarily include some amounts that are based on management's best estimates and the opinion of the appointed actuary.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal control designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared.

Audit Committee of the Board of Directors

The audit committee of the board of directors, consisting entirely of non-executive directors, is responsible for reviewing the accounting principles employed by the Company and reviewing the Company's annual financial statements prior to their submission to the Board of Directors for final approval. The Audit Committee meets periodically with the internal and external auditors, the appointed actuary and management to review their work and to ensure that respective responsibilities are properly discharged. The Audit Committee also reviews and monitors weaknesses in the Company's system of internal control as reported by the auditors.

Appointed Actuary

The appointed actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. Among the appointed actuary's responsibilities is the requirement to carry out an annual valuation of the Company's policy liabilities in accordance with accepted actuarial practice and regulatory requirements for the purpose of reporting to shareholders, policyholders and the Office of the Superintendent of Financial Institutions Canada. In performing this valuation, the actuary makes assumptions as to future rates of interest, asset default, mortality, morbidity, policy termination, expenses and other contingencies, taking into account the circumstances of the Company and the policies in force. The actuary makes use of information provided by management and uses the work of the auditors in verifying the underlying data used in the valuation.

External Auditors

The company's external auditors, Deloitte and Touche LLP, Chartered Accountants, conduct an independent examination of the financial statements and meet separately with both management and the Audit Committee to discuss the results of their examination. The auditor's report to the shareholders and policyholders appears on page 20.

Ken Berglund
Chief Operating Officer

Karen Rust
Vice-President, Finance

Bryan Sigurdson
Vice-President and Chief Actuary

Auditors' Report

To the Shareholders and Policyholders of Co-operators Life Insurance Company:

We have audited the balance sheet of Co-operators Life Insurance Company and the separate balance sheet of its segregated funds as at December 31, 2000 and the statements of operations, shareholders' capital and retained earnings, participating account, cash flow and changes in segregated funds assets for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2000 and the results of its operations, its cash flows and the changes in the assets of its segregated funds for the year then ended in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada.

Deloitte & Touche LLP.

Chartered Accountants
Regina, Saskatchewan
February 14, 2001

Report of the Appointed Actuary

To the Shareholders and Policyholders of Co-operators Life Insurance Company:

I have valued the policy liabilities of the Company for its balance sheet at December 31, 2000 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the result of the valuation.

Bryan G. Sigurdson
Fellow, Canadian Institute of Actuaries
Regina, Saskatchewan
February 14, 2001

December 31, 2000 (thousands)	2000	1999
Assets		
Cash and short-term investments (Note 5)	$ 141,723	$ 109,147
Bonds (Note 5)	599,648	596,560
Stocks (Note 5)	114,895	99,131
Mortgages (Note 5)	458,548	441,094
Real estate (Note 5)	25,901	26,341
Policy loans	35,080	32,689
Premiums due	18,775	16,993
Amounts on deposit with reinsurers	83,327	77,677
Investment income due and accrued	14,844	14,271
Other assets	14,598	12,385
	$ 1,507,339	$ 1,426,288
Liabilities		
Actuarial liabilities (Note 7)	$ 1,016,516	$ 992,690
Policyholders' funds on deposit	94,989	92,032
Claims in course of settlement	4,885	6,320
Provision for unreported claims	20,247	16,292
Provision for policyholder dividends and experience rating refunds	14,333	13,065
Reinsurers' funds on deposit	17,645	16,994
Policy liabilities	1,168,615	1,137,393
Taxes payable	6,017	4,716
Accounts payable and accrued charges	20,839	15,024
Deferred gains (Note 10)	67,267	59,263
Subordinated debt (Note 11)	5,000	5,000
Future income taxes (Note 14)	8,000	684
Total liabilities	1,275,738	1,222,080
Shareholders' and policyholders' equity		
Participating policyholder account	190,133	162,276
Shareholders' equity		
Share capital (Note 13)	8,000	8,000
Retained earnings	33,468	33,932
	41,468	41,932
	231,601	204,208
	$ 1,507,339	$ 1,426,288

Approved by the Board of Directors:

Harvey Granatier
Chairperson,
Board of Directors

John Lamb
Chairperson,
Audit Committee

G.T. Squire
President and
Chief Executive Officer

December 31, 2000 (thousands)	2000	1999
Revenue		
Premiums, net of reinsurance (Note 8)	**$ 395,666**	$ 367,337
Investment, net of expense	**105,034**	93,940
Fees and other income	**5,770**	5,064
	506,470	466,341
Expenses		
Increase in actuarial liabilities	**23,826**	64,051
Life and health claims	**175,875**	149,096
Cash value of surrendered policies	**91,942**	56,613
Policyholder dividends & experience rating refunds	**19,533**	14,614
Annuity payments	**15,778**	15,455
Interest	**4,999**	4,937
Premium and other taxes	**7,681**	6,730
Marketing	**37,193**	33,103
General	**49,569**	42,767
Reinsurance allowances	**37,152**	33,613
	463,548	420,979
Operating income before income taxes	**42,922**	45,362
Income taxes (Note 14)	**14,959**	20,522
Net operating income	**27,963**	24,840
Undistributed participating policyholder income (Note 15)	**26,655**	22,724
Net income to shareholders (Note 16)	**$ 1,308**	$ 2,116

Statement of Shareholders' Capital and Retained Earnings

December 31, 2000 (thousands)		2000		1999
Balance, beginning of year (Note 3)	**$**	**41,932**	$	41,467
Operating income		**1,308**		2,116
Appropriation (Note 15)		**(1,202)**		(1,136)
Dividends to shareholders		**(570)**		(515)
Balance, end of year	**$**	**41,468**	$	41,932

Statement of Participating Account

December 31, 2000 (thousands)		2000		1999
Balance, beginning of year (Note 3)	**$**	**162,276**	$	138,416
Operating income		**26,655**		22,724
Appropriation (Note 15)		**1,202**		1,136
Balance, end of year	**$**	**190,133**	$	162,276

December 31, 2000 (thousands)	2000	1999
Operating activities		
Net operating income	**$ 27,963**	$ 24,840
Items not requiring the use of cash		
Increase in actuarial liability	**23,826**	64,051
Provision for policyholder dividends	**1,268**	(3,173)
Investment write-downs and provisions	**(1,408)**	4,274
Investment amortizations	**(13,203)**	(10,545)
Future income taxes	**7,316**	5,522
Other	**3,790**	(415)
	49,552	84,554
Investing activities (Note 18)		
Bonds	**8,628**	(3,332)
Stocks	**(5,437)**	(8,885)
Mortgages	**(16,934)**	(48,437)
Policy loans	**(2,391)**	(2,601)
Real estate	**(272)**	180
	(16,406)	(63,075)
Financing activities		
Dividends paid to shareholders	**(570)**	(515)
Change in cash	**32,576**	20,964
Cash, beginning of year	**109,147**	88,183
Cash, end of year (Note 18)	**$ 141,723**	$ 109,147

Segregated Funds Balance Sheet

December 31, 2000 (thousands)	2000	1999
Assets		
Cash	**$ 35,873**	$ 31,061
Bonds	**174,948**	173,446
Stocks	**209,221**	189,802
Investment income due and accrued	**2,482**	2,387
	$ 422,524	$ 396,696
Liabilities		
Taxes, licences and fees due and accrued	**$ 159**	$ 147
Funds held for the benefit of policyholders	**422,365**	396,549
	$ 422,524	$ 396,696

Statement of Changes in Segregated Funds Assets

December 31, 2000 (thousands)	2000	1999
Segregated funds assets, beginning of year	**$ 396,696**	$ 361,758
Additions to segregated funds:		
Amounts received from unitholders	**44,790**	48,885
Interest	**12,388**	12,121
Dividends	**3,916**	2,010
Other income	**14**	15
Net realized gains	**20,962**	1,256
Market value appreciation	**7,543**	10,799
	89,613	75,086
Deductions from segregated funds:		
Amounts withdrawn by unitholders	**59,805**	36,550
Operating expenses	**3,980**	3,598
	63,785	40,148
Segregated funds assets, end of year	**$ 422,524**	$ 396,696

1. Nature of Business

The Company is licensed to write life, annuity and health insurance in all provinces and territories in Canada. The Company is subject to the Insurance Companies Act and is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). Under regulations and guidelines prescribed by OSFI, the Company is required to maintain a prescribed level of capital, which is dependent on the type and amount of insurance policies in force and the nature of the Company's assets. The capital position of the Company is well in excess of that prescribed by OSFI.

The Company operates in both the individual and group markets and is also involved in a joint venture with another federally licensed Canadian life insurance company to sell creditor and employee benefit insurance products to and through credit unions in Canada. Products sold to individuals constitute 27% of premium income, products sold through the group markets constitute 53% of premium income, with the other 20% of premium income sold through the credit union market. The majority of the individual products are distributed through the exclusive sales force of related party Co-operators General Insurance Company, while group products are marketed primarily through independent brokers.

2. Significant Accounting Practices

These financial statements have been prepared in accordance with subsection 331(4) of the Insurance Companies Act which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

Cash Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments of one-year term or less.

Bonds Bonds are carried at amortized cost less amounts written off for other than temporary declines in value. Gains or losses on the sale of bonds are considered to be an adjustment of future portfolio yield and are deferred on the balance sheet and amortized to income on a straight-line basis over the remaining period to maturity, to a maximum of 20 years.

Stocks Investments in stocks are carried at moving average market value, where the carrying value is adjusted towards market value at 15% per annum less amounts written off for other than temporary declines in value. Net realized gains and losses on the disposal of stocks are deferred and amortized to income at 15% per annum on a declining balance basis.

Mortgages Mortgages are carried at amortized cost less principal repayments, general provisions, and amounts written off for other than temporary declines in value. Gains or losses on the sale of mortgages are considered to be an adjustment of future portfolio yield and are deferred on the balance sheet and amortized to income on a straight-line basis over the remaining period to maturity, to a maximum of 20 years.

Policy Loans Policy loans are carried at their unpaid balance, which is not in excess of the cash surrender value of the policies on which the respective loans were made.

Equipment Equipment is carried at cost less accumulated depreciation. Equipment is depreciated using straight-line depreciation for periods of 3 or 10 years.

Real Estate Real estate, not including own use and development property, is carried at moving average market value, where the carrying value is adjusted towards market value at 10% per annum less amounts written off for other than temporary declines in value. Market values on each property are established, on a rotating basis, every three years, by qualified appraisers.

Net realized gains and losses are amortized on a declining balance basis at 10% per year. Development properties are carried at cost. Own use properties are carried at cost less accumulated depreciation, calculated using the declining balance method at 5% per annum.

Actuarial Liabilities Actuarial liabilities have been determined using the policy premium method except for annuity and universal life liabilities which have been determined using the cash flow valuation method. Actuarial liabilities represent the amounts which, together with future premiums and investment income, will provide for future benefits, dividends and expenses on insurance and annuity contracts. The liabilities are calculated using estimates of future investment yield, asset default, mortality, morbidity, policy termination and expense, and include reasonable provisions for adverse deviations from those estimates. As the probability of deviation from estimates declines, these provisions for adverse deviations will be included in future income to the extent not required to cover adverse experience.

Employee Future Benefits · Employee future benefits include pensions, medical and dental benefits for pensioners and survivors and certain benefits to other than retirees. The pension plan is a defined contribution plan where the Company obligation is fulfilled when contributions are made as earned by the employees. The other than pension benefits are defined benefit contracts and are accounted for on an accrual basis. The expected costs of employee future benefits are expensed during the years that the employees render services and an accrued post-employment benefit obligation is recognized. The obligation is determined by application of the terms of the plans together with relevant actuarial assumptions.

Segregated Funds Certain contracts allow policyholders to invest in segregated funds managed by the Company for the benefit of policyholders. Income earned on these funds and any related capital gains or losses accrue to the benefit of the segregated fund policyholders. Investments held in segregated funds are carried at market value.

Income Taxes The Company uses the liability method of accounting for income taxes. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Revenue Recognition Premium revenues are recognized as they become due.

Foreign Currency Translation The Company translates all assets and liabilities into Canadian dollars at year-end rates and recognizes exchange gains and losses in the statement of operations.

3. Change in Accounting Policy

During the year, the Company adopted the requirements of the new Canadian Institute of Chartered Accountants Handbook section on employee future benefits. The section requires that companies make provision for obligations arising from commitments to pay benefits to employees after their employment with the company. The change has been applied retroactively reducing the opening participating account of $163,167 by $891 and the prior year balance of $139,237 by $821. The opening shareholders' retained earnings of $36,427 has been reduced by $265 and the prior year balance of $35,936 has been reduced by $239. The opening shareholders' retained earnings has been further reduced by $2,230 for both current and prior years for the Company's paid share of a joint venture partner's employee future benefits liability. A liability of $2,509 (1999 – $2,259) is recorded on the Company's balance sheet and net income is reduced by $155 (1999 – $96). The future tax asset is increased by $900 (1999 – $1,016).

4. Responsibilities of the Appointed Actuary and External Auditors

The Appointed Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. Among the Appointed Actuary's responsibilities is the requirement to carry out an annual valuation of the Company's policy liabilities in accordance with accepted actuarial practice and regulatory requirements for the purpose of reporting to shareholders, policyholders and the Office of the Superintendent of Financial Institutions Canada. In performing this valuation, the Appointed Actuary makes assumptions as to future rates of interest, asset default, mortality, policy termination, expenses and other contingencies, taking into account the circumstances of the Company and the policies in force. The Appointed Actuary makes use of information provided by management and uses the work of the external auditors in verifying the underlying policy and investment data used in the valuation. Examination of the supporting data for accuracy and completeness is an important element of the valuation process. The Report of the Appointed Actuary outlines the scope of the valuation and contains the actuary's opinion regarding the appropriateness of the policy liabilities.

The Appointed Actuary is also required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The most recent analysis tests the capital adequacy of the Company until December 31, 2004 under adverse economic and business conditions.

The external auditors have been appointed by the shareholders and policyholders pursuant to the Insurance Companies Act. Their responsibility is to conduct an examination of the financial statements in accordance with Canadian generally accepted auditing standards and report to the shareholders and policyholders regarding the fairness of the presentation of the Company's financial statements in accordance with Canadian generally accepted accounting principles. These principles also conform with the requirements for filing with the Office of the Superintendent of Financial Institutions Canada. In performing their audit, the external auditors make use of the work of the Appointed Actuary with respect to the policy liabilities.

December 31, 2000 (thousands)

5. Investments

The Company utilizes the prudent person approach to asset management as outlined by the Insurance Companies Act. An investment policy is in place and its application is monitored by the Investment Policy Committee of the Board of Directors. Policies limit investments in any entity or group of related entities to a maximum of 5% of the Company's assets. Limitations are also placed on the quality of investments, particularly relating to investment-grade bonds.

(a) The carrying amounts and fair values of investments are as follows:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments	**$ 141,723**	**$ 141,723**	$ 109,147	$ 109,147
Bonds				
Federal	**$ 136,377**	**$ 140,590**	$ 137,541	$ 135,876
Provincial	**177,220**	**187,986**	164,513	168,769
Municipal	**32,455**	**34,723**	44,043	45,461
Corporate A or better	**234,408**	**241,966**	230,265	236,838
Below A	**8,217**	**9,025**	9,192	9,159
Co-operatives	**10,971**	**10,251**	11,006	11,040
	$ 599,648	**$ 624,541**	$ 596,560	$ 607,143
Stocks				
Canadian	**$ 92,178**	**$ 100,842**	$ 78,684	$ 85,398
U.S.	**17,912**	**12,967**	20,447	18,807
Foreign	**4,805**	**4,059**	—	—
	$ 114,895	**$ 117,868**	$ 99,131	$ 104,205
Mortgages				
Insured	**$ 199,063**	**$ 206,260**	$ 193,656	$ 192,579
Residential	**55,063**	**56,297**	54,580	54,587
Commercial	**209,122**	**219,197**	198,358	202,405
General provision	**(4,700)**	**—**	(5,500)	—
	$ 458,548	**$ 481,754**	$ 441,094	$ 449,571
Real Estate				
Office	**$ 21,247**	**$ 19,824**	$ 21,802	$ 19,316
Project development	**5,702**	**6,193**	6,784	6,485
Foreclosed	**2,300**	**2,300**	2,300	2,300
Other	**1,152**	**897**	955	602
General provision	**(4,500)**	**—**	(5,500)	—
	$ 25,901	**$ 29,214**	$ 26,341	$ 28,703

(b) Securities Lending

The Company participates in a securities lending program managed by a federally regulated financial institution whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Company receives securities of superior credit quality and value as collateral for securities loaned. At December 31, 2000, securities with an estimated fair value of $133,613 have been loaned, and securities with an estimated fair value of $141,288 received as collateral.

(c) Impaired Assets and Provisions for Losses

The Company establishes specific and general provisions for potential losses on any assets which are impaired. Taken into account are the current market value of the security, the value of any related collateral, the financial strength of the issuer or borrower, any loan covenants and any guarantees or insurance related to the investment. Changes to these provisions are reflected in the net investment income in the period when the impairment is recognized. These provisions are netted against the carrying value of a specific asset or against the asset category in the case of general provisions. The amounts identified below reflect the effect on income in the year identified.

	2000		1999	
	Specific	General	Specific	General
Mortgages				
Impaired loans provision	**$ 392**	**$ —**	$ 1,223	$ —
Foreclosed	**—**	**—**	94	—
Recoveries	**—**	**—**	(150)	—
General provision	**—**	**(800)**	—	2,000
Real estate	**(1,000)**	**—**	1,107	—
	$ (608)	**$ (800)**	$ 2,274	$ 2,000

After deducting specific provisions, impaired loans totalled $4,639 (1999 – $2,783). The total value of foreclosed properties net of specific provisions is $2,300 (1999 – $2,300). The Company maintains a $4,700 general provision against the mortgage portfolio (1999 – $5,500), and a $4,500 general provision against the real estate portfolio (1999 – $5,500). In addition to these provisions, possible future impairments are provided for through the reduction of future investment yields assumed in the calculation of the actuarial liabilities. The provision for losses on not yet impaired assets is $15,111 (1999 – $16,457).

(d) The amount of deferred gains included in investment income is the amortization of deferred net gains (losses) realized on disposal of investments and of unrealized gains (losses) on stocks and real estate.

	2000	1999
Bonds	**$ 6,140**	$ 5,355
Stocks	**5,098**	4,541
Mortgages	**336**	386
Real estate	**(350)**	(602)
	$ 11,224	$ 9,680

(e) Geographic Concentration

	2000	1999
Mortgages		
Atlantic	**$ 83,133**	$ 86,275
Ontario	**137,049**	127,056
Prairies	**113,737**	111,610
British Columbia	**104,403**	94,737
Other	**24,926**	26,916
Less provision	**(4,700)**	(5,500)
	$ 458,548	$ 441,094
Real Estate		
Ontario	**$ 10,645**	$ 10,940
Prairies	**10,950**	11,033
British Columbia	**8,806**	9,868
Less provision	**(4,500)**	(5,500)
	$ 25,901	$ 26,341

December 31, 2000 (thousands)

(f) Maturity Profile of Investments

	< 1 Year	1–3 Years	3–5 Years	> 5 Years	No Fixed	2000	1999
Bonds and mortgages	$ 101,328	$ 190,158	$ 176,478	$ 590,232	$ —	$ 1,058,196	$ 1,037,654
Stocks	8,762	17,408	1,000	6,045	81,680	114,895	99,131
Cash and short-term	141,723	—	—	—	—	141,723	109,147
Real estate	—	—	—	—	25,901	25,901	26,341
	$ 251,813	$ 207,566	$ 177,478	$ 596,277	$ 107,581	$ 1,340,715	$ 1,272,273
2000	**19%**	**15%**	**13%**	**44%**	**9%**	**100%**	
1999	17%	14%	14%	48%	7%		100%

6. Segmented Information

The principal business of the Company is to provide life insurance, health insurance and asset accumulation products to individuals and employee and association groups. The Company primarily manages its business on a marketing basis between group and individual products. Reporting to the Company's board identifies the performance for each business unit.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different specializations and marketing strategies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

2000

	Individual Insurance	Asset Accumulation	Group Insurance	Coinsurance Assumed	Surplus	Total
Premiums	$ 79,341	$ 48,350	$ 185,858	$ 82,117	$ —	$ 395,666
Investment income	33,240	32,148	16,002	5,340	18,304	105,034
Fees and other income	—	3,575	1,819	—	376	5,770
Expenses	87,737	76,512	221,731	76,462	1,106	463,548
Income tax expense	11,180	3,403	(9,091)	4,947	4,520	14,959
Net operating income	$ 13,664	$ 4,158	$ (8,961)	$ 6,048	$ 13,054	$ 27,963
Assets	$ 449,504	$ 401,642	$ 277,758	$ 87,696	$ 290,739	$ 1,507,339

1999

	Individual Insurance	Asset Accumulation	Group Insurance	Coinsurance Assumed	Surplus	Total
Premiums	$ 74,600	$ 55,198	$ 164,960	$ 72,579	$ —	$ 367,337
Investment income	33,259	32,843	13,706	5,553	8,579	93,940
Fees and other income	—	3,111	1,585	—	368	5,064
Expenses	77,684	89,039	184,932	68,223	1,101	420,979
Income tax expense	13,579	951	(2,102)	4,455	3,639	20,522
Net operating income	$ 16,596	$ 1,162	$ (2,579)	$ 5,454	$ 4,207	$ 24,840
Assets	$ 435,005	$ 425,785	$ 235,226	$ 81,154	$ 249,118	$ 1,426,288

7. Actuarial Liabilities

(a) Composition of Actuarial Liabilities

	2000	1999
Individual insurance	**$ 334,279**	$ 322,488
Asset accumulation	**383,193**	411,255
Group insurance	**220,069**	185,820
Coinsurance assumed	**78,975**	73,127
Total	**$ 1,016,516**	$ 992,690

(b) Nature of Actuarial Liabilities

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on all insurance and annuity policies in force. Actuarial liabilities are determined using Canadian generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Liabilities have been determined using the policy premium method except that annuity and universal life liabilities have been established using the cash flow valuation method.

Assumptions used to calculate actuarial liabilities consist of two components—a "best estimate" and a margin for adverse deviation.

(c) Assumptions

In the computation of actuarial liabilities, "best estimate" assumptions covering the lifetime of the policies have been made for many variables including mortality, morbidity, investment returns, rates of policy termination, operating expenses, inflation, policyholder dividends and taxes. Assumptions are reviewed annually based on studies of the major experience factors. The change in actuarial liabilities resulting from assumption revisions is recognized in income immediately. The methods for arriving at the most important assumptions are outlined below.

Mortality The mortality assumption for individual life insurance is based on a combination of Company and industry experience. Recent experience has been more favourable than that assumed in the calculation of actuarial liabilities. A decrease of 1% in the mortality assumption for individual life insurance would reduce the actuarial liabilities by $3,400 (1999 – $3,800).

For annuities and group life insurance, the mortality assumption is derived from industry experience tables. Mortality improvement has been projected in future years for annuitants.

Morbidity Morbidity assumptions are made with respect to the rates of claim incidence and termination for accident and sickness business. The key morbidity assumption for the Company is the termination rate for group long-term disability claims. This assumption is based on industry experience modified to reflect emerging company experience.

Investment Returns The Company maintains asset segments backing specific lines of business. For each segment, the assumption for future investment yield is based on the current yield rate, a reinvestment assumption and an allowance for future credit losses. For business valued using the cash flow valuation method, projections of future asset and liability cash flows under multiple economic scenarios are used to determine the actuarial liability.

Expenses Policy maintenance expense assumptions are derived from the Company's internal cost studies without any adjustment for productivity gains. An inflation assumption consistent with the investment return is incorporated in the estimate of future expenses.

December 31, 2000 (thousands)

Policy Termination Policyholders may allow their policies to terminate by choosing not to continue to pay premiums. Policy termination rates are mainly based on the Company's own experience. The assumptions reflect differences in termination patterns for different types of contracts.

A block of policies is considered to be lapse-supported if an increase in ultimate lapse rates increases profitability. The Company has reflected the emerging trend of lower lapse rates for lapse-supported products.

(d) Provision for Adverse Deviation

To recognize the uncertainty in establishing the best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that actuarial liabilities are adequate to pay future benefits, a margin is included in each assumption. With the passage of time, and resulting reduction in estimation risk, these margins are released into income.

A range of allowable margins is prescribed by the Canadian Institute of Actuaries. In most cases the Company maintains margins at the conservative end of the allowable range.

(e) Changes in Actuarial Liabilities

Changes in actuarial liabilities during the year were caused by the following business activities and changes in actuarial assumptions:

					2000
	Individual Insurance	Asset Accumulation	Group Insurance	Coinsurance Assumed	Total
Actuarial liabilities at the beginning of the year	**$ 322,488**	**$ 411,255**	**$ 185,820**	**$ 73,127**	**$ 992,690**
Normal changes a) New Business	**8,667**	**9,541**	**70,495**	**35,519**	**124,222**
b) In Force	**18,924**	**(36,928)**	**(32,901)**	**(24,896)**	**(75,801)**
Changes in assumptions	**(14,418)**	**659**	**(3,353)**	**(4,775)**	**(21,887)**
Changes in method	**—**	**—**	**—**	**—**	**—**
Reinsurance transactions	**—**	**—**	**—**	**—**	**—**
Adjustment for future income taxes	**(1,382)**	**(1,334)**	**8**	**—**	**(2,708)**
Actuarial liabilities at the end of the year	**$ 334,279**	**$ 383,193**	**$ 220,069**	**$ 78,975**	**$ 1,016,516**

					1999
	Individual Insurance	Asset Accumulation	Group Insurance	Coinsurance Assumed	Total
Actuarial liabilities at the beginning of the year	$ 314,055	$ 392,198	$ 151,325	$ 71,061	$ 928,639
Normal changes a) New Business	14,581	17,704	56,679	37,941	126,905
b) In Force	28,267	2,907	(31,110)	(32,503)	(32,439)
Changes in assumptions	(13,451)	(3,920)	71	(3,372)	(20,672)
Changes in method	(5,360)	—	—	—	(5,360)
Reinsurance transactions	(6,301)	—	7,976	—	1,675
Adjustment for future income taxes	(9,303)	2,366	879	—	(6,058)
Actuarial liabilities at the end of the year	$ 322,488	$ 411,255	$ 185,820	$ 73,127	$ 992,690

Actuarial liabilities have been adjusted to incorporate the effect on future cash flows attributable to differences between statement and tax actuarial liabilities.

The major assumption changes in 2000 are described below. The changes had a material impact on the Company's net income in the current reporting period.

Mortality Actuarial liabilities were reduced by $17,100 due to changes in mortality assumptions and a scheduled decrease in the AIDS provision. The new assumptions reflect continuing favourable mortality experience for individual insurance and assumed group life.

Morbidity Expected termination rates for group long-term disability claims were revised based on company experience. Margins for adverse deviation for group creditor disability business were also revised. The total impact of these changes was a decrease in actuarial liabilities of $4,500.

Investment Returns Investment return assumptions were adjusted to reflect current portfolio yields and reinvestment rates. In addition, changes were made to the equity portion of the universal life valuation model. As a result, actuarial liabilities decreased by $1,600.

Expenses Actuarial liabilities decreased by $1,900 primarily due to refinements in the allocation of expenses between policy acquisition and policy maintenance for assumed lines of business.

Policy Termination Lapse rate assumptions were updated for most products. The revisions produced an increase in liabilities of $3,200. Lapse-supported products were particularly affected.

(f) Assets Supporting Actuarial Liabilities

The Company manages assets, liabilities, capital and surplus within seven major segments depending on the investment objectives which are appropriate for each segment. The distribution of net assets (general provisions are recorded against Capital & Surplus until such time as they become specific) within each segment was as follows:

2000

	Individual Life	Deferred Annuities	Immediate Annuities	Group Pension	Group Life	Accident & Sickness	Capital & Surplus	Total
Bonds	**$ 227,431**	**$ 14,083**	**$ 58,433**	**$ 111,329**	**$ 21,716**	**$ 71,838**	**$ 94,818**	**$ 599,648**
Stocks	**8,787**	**—**	**—**	**—**	**—**	**—**	**106,108**	**114,895**
Mortgages	**161,995**	**58,726**	**41,711**	**89,720**	**22,051**	**86,746**	**(2,401)**	**458,548**
Real estate	**—**	**—**	**—**	**—**	**—**	**—**	**25,901**	**25,901**
Other	**54,679**	**19,710**	**7,321**	**609**	**44,447**	**115,268**	**66,313**	**308,347**
Total assets	**452,892**	**92,519**	**107,465**	**201,658**	**88,214**	**273,852**	**290,739**	**1,507,339**
Less:								
Deferred gains	**18,488**	**(79)**	**7,090**	**6,358**	**1,793**	**5,599**	**28,018**	**67,267**
Other liabilities	**97,076**	**1,005**	**2,281**	**1,794**	**17,400**	**41,279**	**31,120**	**191,955**
Net assets	**$ 337,328**	**$ 91,593**	**$ 98,094**	**$ 193,506**	**$ 69,021**	**$ 226,974**	**$ 231,601**	**$ 1,248,117**

1999

	Individual Life	Deferred Annuities	Immediate Annuities	Group Pension	Group Life	Accident & Sickness	Capital & Surplus	Total
Bonds	$ 232,582	$ 9,034	$ 65,494	$ 110,134	$ 24,983	$ 82,039	$ 72,294	$ 596,560
Stocks	6,153	—	—	—	—	—	92,978	99,131
Mortgages	158,871	61,657	43,176	85,978	16,640	77,314	(2,542)	441,094
Real estate	—	—	—	—	—	—	26,341	26,341
Other	40,228	37,765	2,524	10,023	36,982	75,593	60,047	263,162
Total assets	437,834	108,456	111,194	206,135	78,605	234,946	249,118	1,426,288
Less:								
Deferred gains	19,342	115	5,057	6,527	622	4,382	23,218	59,263
Other liabilities	93,413	812	2,002	17	18,456	33,735	21,692	170,127
Net assets	$ 325,079	$ 107,529	$ 104,135	$ 199,591	$ 59,527	$ 196,829	$ 204,208	$ 1,196,898

December 31, 2000 (thousands)

8. Reinsurance

(a) Ceded

Reinsurance has been used to reduce risk by limiting the Company's exposure to a single claim and a single event. The Company reinsures all insurance amounts in excess of $250 per life and all monthly income amounts in excess of eighteen hundred per month for non-experience rated group long-term disability business. For certain individual life products the Company retains less than $250 per life. In addition, death claims in excess of $1,000 resulting from a loss occurrence involving three or more lives are reinsured. Although claims in excess of these limits are recoverable from the companies that have assumed the reinsurance coverage, the Company remains primarily liable to the beneficiaries on these policies.

For products sold to and through credit unions, the Company has a coinsurance agreement transferring 50% of all risks on this business.

As a result of these reinsurance arrangements, actuarial liabilities have been reduced by $84,807 (1999 – $62,157). Reinsurance premiums paid during the year were $20,978 (1999 – $17,081).

(b) Assumed

The Company has a coinsurance agreement under which it assumes 50% of all risks on business written on credit union members by another federally licensed life insurance company. Reinsurance premiums received during the year were $82,665 (1999 – $80,515) and actuarial liabilities have been increased by $78,975 (1999 – $73,127).

9. Liquidity

Liquidity risk refers to the ability of the Company to raise funds to meet financial commitments as they fall due. Sources of liquidity include the on-going net cash flow of the Company and the sale of liquid assets at fair market value. As shown below, the Company maintains a high level of liquid assets to ensure that cash demands can be readily met. Additional liquidity is available through unused bank lines of credit.

Liquid Assets

	Fair Value	
	2000	1999
Cash and short-term investments	**$ 139,223**	$ 107,147
Marketable securities		
Federal and provincial bonds	**328,576**	304,645
Corporate and municipal bonds	**293,799**	272,984
Common stocks	**69,563**	54,800
Preferred stocks	**33,470**	34,740
	$ 864,631	$ 774,316

Liquidity risk varies by line of business based on contractual rights to make cash withdrawals and other distinct product features. It is unlikely that all demand liabilities will be withdrawn at the same time. The liquid assets exceed the liquidity needs of the liabilities by a wide margin as illustrated by the following table. Approximately 60% of policy liabilities are not cashable prior to maturity or are subject to market value adjustments.

Policy Liabilities

	Book Value		Liquidity Need
	2000	1999	
Policies with no surrender values	**$ 422,966**	$ 389,976	Nil
Policies with surrender values subject to market value adjustment	**285,547**	284,172	Low
Policies with no surrender charges	**460,102**	463,245	High
	$ 1,168,615	$ 1,137,393	

10. Fair Value

It is the investment policy of the Company that assets be chosen for their amount and cash flow characteristics to match the policy liability cash flows. Consequently, changes in the fair values of assets supporting liabilities will be offset mainly by changes in fair value of those liabilities. Conversely, changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus when realized.

	Assets Supporting Liabilities		Total Assets	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 88,959	$ 88,959	$ 141,723	$ 141,723
Bonds	504,830	528,583	599,648	624,541
Stocks	8,787	8,588	114,895	117,868
Mortgages	460,949	479,434	458,548	481,754
Real estate	—	—	25,901	29,214
Policy loans	35,080	35,080	35,080	35,080
Premiums due	18,775	18,775	18,775	18,775
Amounts on deposit with reinsurers	83,327	83,327	83,327	83,327
Accrued investment income	11,450	11,450	14,844	14,844
Other	4,443	4,443	14,598	14,598
Total	$1,216,600	$ 1,258,639	$ 1,507,339	$ 1,561,724
Deferred net gains				
Bonds	$ 37,640	$ —	$ 39,659	$ —
Stocks	1,077	—	25,918	—
Mortgages	532	—	532	—
Real estate	—	—	1,158	—
Total	$ 39,249	$ —	$ 67,267	$ —

11. Subordinated Debt

In 1995, the Company issued $5,000 in subordinated debt to its ultimate parent, The Co-operators Group Limited. The subordinated debt qualifies as capital under the rules of the Office of the Superintendent of Financial Institutions Canada. It has interest payable in semi-annual instalments at the one-year Treasury Bill rate plus 110 basis points, set every November. The principal is due November 1, 2094. The debt is subordinated in right of payment to all policy liabilities of the Company and all other senior indebtedness of the Company. The fair value of the debt approximates the carrying value.

12. Employee Future Benefit Obligation

The Company maintains certain medical and dental benefits for qualifying retirees. These plans are not funded. Information regarding the plans' costs, liabilities and actuarial assumptions follows.

Post-retirement benefit cost consists of the following components before income tax.

		2000		1999
Service cost	**$**	**102**	$	97
Interest cost		**190**		124
Amortization of unrecognized net gain		**3**		4
Total cost	**$**	**295**	$	225
Total current payments	**$**	**45**	$	51
Accrued post-employment benefit obligation				
Retirees	**$**	**1,402**	$	1,296
Fully eligible active plan participants		**1,140**		998
Other active plan participants		**1**		2
Total accrual	**$**	**2,543**	$	2,296
Deferred valuation adjustment gain (loss)	**$**	**(34)**	$	(37)
Total employee future benefit obligation	**$**	**2,509**	$	2,259
Current valuation adjustment	**$**	**—**	$	(124)
Assumptions				
Discount rate		**7.0%**		7.0%
Trend rate				
Beginning next year		**9.0%**		9.0%
Ending year 2005		**4.0 – 5.0%**		5.0%

Experience gains and losses are amortized over the average future service to expected retirement age (11 years) on a straight-line basis.

Contributions to other than pension plan are made by the Company and the information is included above.

Contributions to pension plan				
Company	**$**	**1,440**	$	1,273
Employees		**1,035**		924

13. Capital

(Number of shares not in thousands)

Authorized:

100,000 common shares

250,000 preference shares, issuable in series with attributes set by the Board of Directors; shares are only redeemable on approval of the board and the regulators

			2000		1999
Issued and fully paid:					
20,000	common shares	**$**	**1,000**	$	1,000
20,000	non-cumulative redeemable preference shares		**2,000**		2,000
50,000	non-cumulative redeemable second preference shares		**5,000**		5,000
		$	**8,000**	$	8,000

14. Income Taxes

Income taxes reflect an effective tax rate which differs from the general corporate tax rate for the following reasons:

	2000	1999
Combined basic Canadian federal and provincial income tax rate	**45.0%**	45.0%
Income taxes based on above rate	**$ 19,310**	$ 20,412
Increase (decrease) resulting from permanent differences arising from:		
Non-taxable dividend income	**(1,290)**	(1,160)
Excluded portion of capital gains	**(100)**	350
Reduction in future tax rates	**(2,300)**	—
Other	**(1,111)**	610
Large corporations tax	**450**	310
	$ 14,959	$ 20,522

	2000	1999
Income tax expense is comprised of the following:		
Current	**$ 7,643**	$ 15,000
Future	**7,316**	5,522
	$ 14,959	$ 20,522

	2000	1999
The future income tax liability (asset) is comprised of the following:		
Bonds and mortgages	**$ (1,900)**	$ (2,500)
Stocks	**(10,800)**	(9,700)
Real estate	**(500)**	(800)
Other assets	**(600)**	(700)
Actuarial liabilities	**22,700**	15,400
Employee future benefits	**(900)**	(1,016)
	$ 8,000	$ 684

15. Participating Account

The Company issues insurance contracts to policyholders which provide for their participation in the profits of the operation. The undistributed participating policyholder income is $26,655 (1999 – $22,724).

These policyholders will, based on the contribution of the class of policy to the distributable surplus, be eligible to participate in the distribution of the surplus by means of annual dividends. Equity is maintained between classes of policyholders and generations of policyholders. The dividends paid during the year were $14,884 (1999 – $13,156).

The accrual method is used to determine the shareholder portion of participating income. Reflected in shareholder income for the year is its share of participating income of $2,276 (1999 – $2,109). Section 461 of the *Insurance Companies Act* (The Act) allows a transfer from the participating account to the shareholders' account based on actual dividends paid during the year. The amount allowed under The Act is $1,074 (1999 – $973). The additional amount of $1,202 (1999 – $1,136) is appropriated in the participating account for distribution when allowed by The Act. The total amount appropriated at the end of the year is $12,792 (1999 – $11,234).

16. Net Income Available to Shareholders

The net income available to shareholders includes the net income of the life branch non-participating policies, accident and sickness business, investment earnings credited to the shareholders' account and the shareholder portion of participating policyholder income before dividends.

December 31, 2000 (thousands)

17. Related Party Transactions

The Company's ultimate parent is The Co-operators Group Limited. In the normal course of business the Company provides group insurance programs and leases space to companies in the group. It obtains investment counselling and property management services from certain companies in the group. Product distribution is provided by Co-operators General Insurance Company, and management services are provided by the parent. With the exception of management services, all the other services are in the normal course and are established at terms and conditions using available market information. The following summary indicates the Company's transactions with related parties during the year:

	2000	1999
Premiums	**$ 5,534**	$ 7,582
Investment expenses	**3,201**	2,657
Marketing expenses	**27,543**	24,713
General expense	**1,762**	1,508

Included in the Company's balance sheet at December 31, 2000 are amounts due to related parties of $3,142 (1999 – $802) and amounts due from related parties of $253 (1999 – $3).

Balances outstanding at the year-end represent current trade accounts with the related parties and are generally settled in 30 days. No security is held.

18. Statement of Cash Flow

(a) The investing activities shown in the Statement of Cash Flow are comprised of the following:

			2000
	Advances and Purchases	Sales and Redemptions	Net
Bonds	**$ 193,247**	**$ 201,875**	**$ 8,628**
Stocks	**46,076**	**40,639**	**(5,437)**
Mortgages	**98,120**	**81,186**	**(16,934)**
Policy loans	**12,361**	**9,970**	**(2,391)**
Real estate	**1,208**	**936**	**(272)**
	$ 351,012	**$ 334,606**	**$ (16,406)**

			1999
	Advances and Purchases	Sales and Redemptions	Net
Bonds	$ 203,500	$ 200,168	$ (3,332)
Stocks	50,638	41,753	(8,885)
Mortgages	118,952	70,515	(48,437)
Policy loans	9,173	6,572	(2,601)
Real estate	220	400	180
	$ 382,483	$ 319,408	$ (63,075)

(b) Cash is comprised of the following:

	2000	1999
Short-term investments	**$ 145,155**	$ 112,973
Bank overdraft	**(3,432)**	(3,826)
	$ 141,723	$ 109,147

(c) Supplemental cash flows are as follows:

	2000	1999
Interest and dividends received	**$ 84,330**	$ 81,345
Interest paid	**5,116**	4,854
Income taxes paid	**8,074**	11,864

19. Contingent Liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business. The Company is of the opinion that this litigation will not have a significant effect on the financial position, results of operations or cash flows of the Company.

20. Joint Ventures

The Company is involved in a number of joint ventures for the purpose of developing its insurance business. One of the joint ventures is with a federally licensed life insurance company to reach a common insurance market in which the business is shared 50%. In addition, the Company has entered into several real estate joint ventures with varying partners and interests, for the purpose of earning income for the insurance operations.

	2000	1999
Assets	**$ 120,168**	$ 114,467
Liabilities	**102,258**	96,020
Revenue	**99,795**	89,292
Expenses	**88,884**	78,946
Net income	**10,911**	10,346
Cash flow – Operating activities	**17,600**	14,889
Cash flow – Financing activities	**(2,056)**	(1,918)
Cash flow – Investing activities	**(272)**	180

21. Comparative Figures

Certain prior year items have been reclassified to conform to current year presentation.

Statement of Values

The Co-operators believes . . .

in holding the highest level of integrity as our standard of conduct

•

that our success depends on meeting and anticipating our clients' needs

•

in enhancing the excellence of our products
and services through continual innovation

•

in fostering open communication, teamwork
and team spirit throughout the organization

•

that good business depends on responsible corporate citizenship

•

in the co-operative principles, which complement our values

Mission Statement

The Co-operators:
financial security for Canadians and their communities

the co-operators
A Better Place For You™

Our Preparation Today Ensures Our Future

Expanding current capabilities, investing in technology, meeting the needs of our clients—these are the areas our Co-operators Life senior management team focuses and builds on.

The team continues to grow stronger as a result of our focus on executive development.

Back row (left to right): Terry MacDonald, Vice-President, Corporate Services; Rein Tabur, Vice-President, Investments; Bryan Sigurdson, Vice-President and Chief Actuary; Jim Dale, Vice-President, Individual Insurance; Chuck Wilson, Vice-President and General Counsel. Front row (left to right) Randy Grimsrud, Vice-President, Information Systems and acting Vice-President, Group Operations; Dan Thornton, Senior Vice-President and Chief Operating Officer; Karen Rust, Vice-President, Finance.

The Co-operators Group Limited

Priory Square
Guelph, Ontario
N1H 6P8
Telephone: (519) 824-4400
Fax: (519) 824-0599
Email: service@cooperators.ca
www.cooperators.ca
Teletypewriter transmission (for the hearing impaired):
1-800-793-2667

G. Terry Squire, President and Chief Executive Officer
Dan Thornton, Senior Vice-President and Chief Operating Officer, Co-operators Life Insurance Company
Peter Crawford, Senior Vice-President, Finance and Chief Financial Officer
Dennis Deters, Senior Vice-President, Member and Corporate Relations
Jim Laverick, Senior Vice-President, Insurance Operations

Co-operators Life Insurance Company

1920 College Avenue
Regina, Saskatchewan
S4P 1C4
Telephone: (306) 347-6200
Fax: (306) 347-6806
Email: service@cooperators.ca
www.cooperators.ca

Dan Thornton, Senior Vice-President and Chief Operating Officer
Jim Dale, Vice-President, Individual Insurance
Randy Grimsrud, Acting Vice-President, Group Insurance
Karen Rust, Vice-President, Finance
Randy Grimsrud, Vice-President, Information Systems
Terry MacDonald, Vice-President, Corporate Services
Chuck Wilson, Vice-President and General Counsel
Bryan Sigurdson, Vice-President and Chief Actuary
Rein Tabur, Vice-President, Investments

Board of Directors
Co-operators Life Insurance Company

Harvey Granatier, Chairperson of the Board
Peter Podovinikoff, 1st Vice-Chairperson
Wayne Lee, 2nd Vice-Chairperson
Jerry Andrijiw
Maurice Campeau
Gerry Carey
Connie Doucette
Kenneth Hoppins
David Lach
John Lamb
Richard Lemoing
Sheena Lucas
Jim MacConnell
Wayne McLeod
Gilles Ménard
Leonard Mortson
Ray Robertson
Dona Stewardson
Dennis Van Der Haegen
Alexandra Wilson

Printed in Canada on recycled paper containing 50% recycled content, which includes 10% post consumer waste fibre.

the co-operators

MMG562